

CALIFORNIA STATE TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Fixed Income -
Home Loan Policy

ITEM NUMBER: 9

ATTACHMENT(S): 2

ACTION: X

DATE OF MEETING: April 7, 1999

INFORMATION: _____

PRESENTER(S): Ms. Cunningham

EXECUTIVE SUMMARY

One of the 1998/99 objectives approved for the Investment Branch is to revitalize CalSTRS' Home Loan Program (HLP) within the legislative mandates. As a first step in that process, staff presented a Business Plan for the HLP to the Investment Committee in September 1998. In November 1998, the Investment Committee approved the HLP Policy Manual for that portion of the program that fell under the legislation originally established in 1984. At the November 1998 meeting, staff was directed to analyze the implementation issues associated with the 100 percent financing option that was included in new legislation effective in January 1999. The new legislation was established in order to help members who would otherwise not be able to purchase a home, secure a downpayment, which necessitated the development of a mechanism to create Personal Loans.

Attachment 1 represents the revised Home Loan Program Policy Manual, which includes the new policies associated with the implementation of the Personal Loan portion of the HLP. This manual outlines the internally approved policies that have been designed to set boundaries to ensure prudence and care in the implementation of the entire program. These policies are also intended to allow sufficient flexibility in developing a program that will provide members with access to traditional mortgage loans along with 100 percent home loan financing. The policies are intended to be static in nature and will be returned to the Investment Committee prior to changes being implemented.

RECOMMENDATION

Staff recommends that the Investment Committee approve the Home Loan Program Policy Manual by adopting the attached resolution (Attachment 2).

CalSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

HOME LOAN PROGRAM POLICY MANUAL

INVESTMENT BRANCH
April, 1999

**California State Teachers' Retirement System
Home Loan Program Policy Manual**

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**California State Teachers' Retirement System
Home Loan Program Policy Manual**

INTRODUCTION

The California State Teachers' Retirement System (CalSTRS) Mortgage Home Loan Program (HLP) was established in 1984 as the result of legislation that provided CalSTRS with a mortgage-backed investment opportunity, as well as an additional source of home financing for its members and retirees. Later legislation, referred to as the Dave Elder State Teachers' Retirement System Member Home Loan Program Act, enabled the California State Teachers' Retirement Board (Board) to enter into correspondent agreements with private lending institutions to facilitate the implementation of the HLP. Subsequent to the passage of that legislation, in 1986 CalSTRS began making 15 and 30 year fixed interest rate mortgage loans for the refinance or purchase of one to four family owner-occupied properties within the State of California.

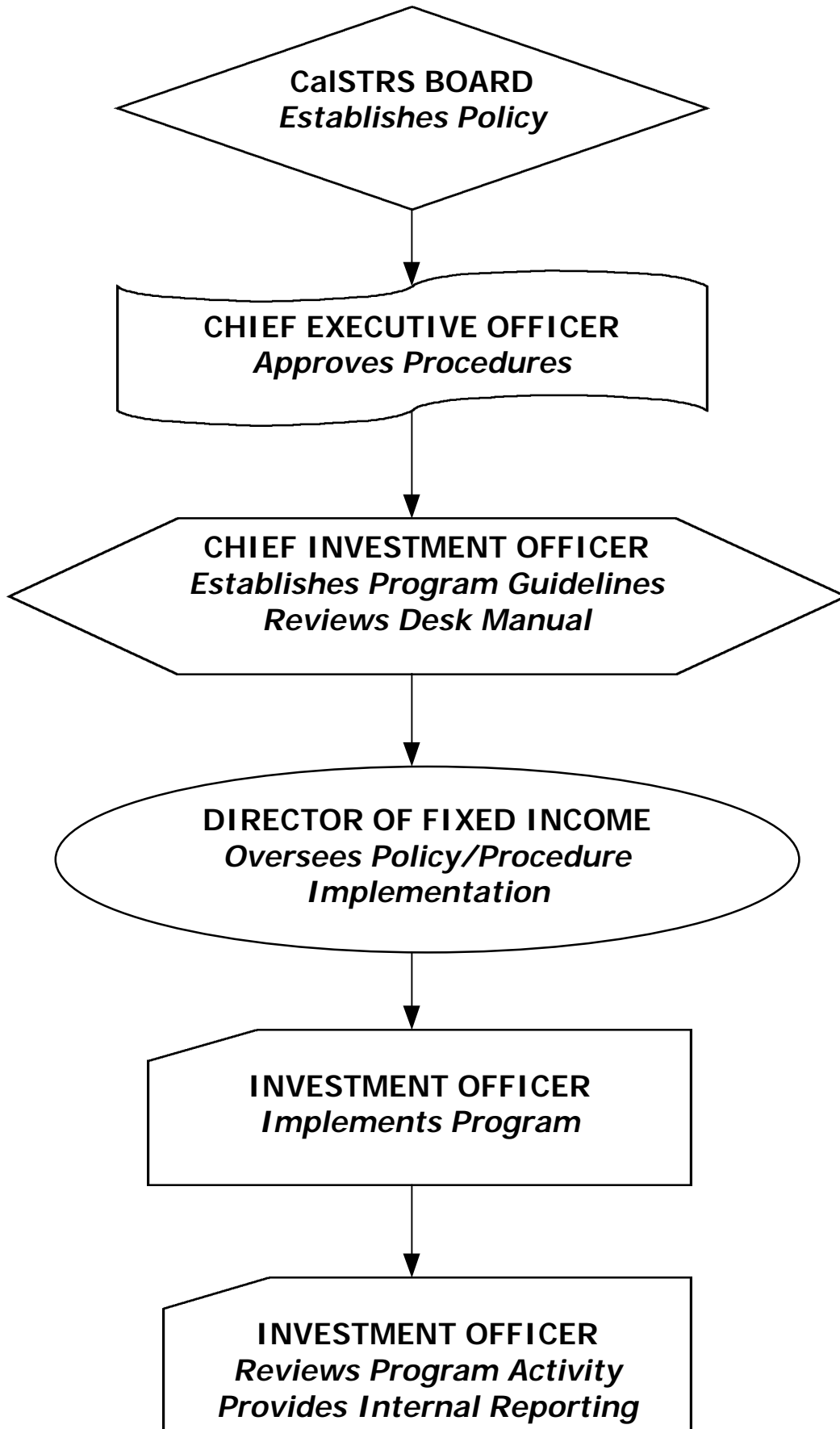
The most recent legislation, SB 1945 (Karnette), provided an opportunity for eligible members to obtain 100 percent financing by pledging a portion of their retirement contribution. The 100 percent financing option, known as a Personal Loan, was created to help members who would otherwise not be able to secure the downpayment required to purchase a home.

Following are some of the features of the CalSTRS HLP:

- Competitive loan rates on a variety of mortgage loans.
- Highly experienced correspondent lenders working with program participants.
- Availability of purchase or refinance plans.
- Ability to borrow against the employee's contributions credited to his or her retirement account in order to secure a downpayment for a home (Personal Loan).

This policy document represents the internally approved policies of CalSTRS' HLP, which have been designed to set the boundaries for the management and oversight of the program. A flow chart is included to provide the context for the policies within the general process of implementing the HLP. Words and terms that may be unfamiliar to the reader are referenced in the Glossary.

HOME LOAN PROGRAM FLOWCHART



**California State Teachers' Retirement System
Home Loan Program Policy Manual**

HOME LOAN PROGRAM POLICIES

April 1999

This document outlines the internally approved policies for the management of CalSTRS' HLP. These policies are designed to set the boundaries that will ensure prudence and care in the implementation of the program, while allowing sufficient flexibility in developing a program that is competitive and that will provide specified members with 100 percent home loan financing. Policies approved by the Board cannot be altered without explicit direction from the Board.

1. Laws and Statutes - As stated within Section 22360 of the Teacher's Retirement Law, notwithstanding any other provision of law, the Board may, pursuant to Section 22203 and in conformance with its fiduciary duty set forth in Section 22250, enter into correspondent agreements with private lending institutions within California to utilize the retirement fund to invest in residential mortgages, including assisting members, through financing, to obtain homes within the state. Furthermore, the Board shall include a procedure whereby a borrower may obtain 100 percent financing for the purchase of a single family dwelling within specified criteria.
2. Program Objectives - The criteria and terms for CalSTRS' home loans shall be consistent with the financial integrity of the program and the sound investment of the retirement fund.
3. Loan Rates - Loan rates shall be periodically reviewed and adjusted as described within the Procedures and Desk Manuals to provide home loans to borrowers consistent with the financial integrity of the HLP and the sound and prudent investment of the retirement fund. Under no circumstances, however, shall the interest rates offered to borrowers be lower than the market rate.
4. Authorized Signers - Authorization letters that indicate who may sign on behalf of CalSTRS shall be delivered to the appropriate parties. Whenever a change in authorized signers occurs, the affected parties shall be notified within 24 hours, in the event of termination, and as soon as possible, in the event of a newly authorized signer.
5. Business Plan - The HLP will be managed in accordance with a Business Plan which will be prepared on an annual basis and will describe CalSTRS'

goals for the HLP and will include a plan for achieving such goals over the subsequent twelve month period.

6. Delegation of Authority - The implementation of CalSTRS' HLP is delegated to staff within the boundaries established by these policies and the processes outlined in the Procedures Manual.
7. Board Review - The Board shall administer and review this policy periodically, as it deems appropriate and in keeping with the investment standard.

MORTGAGE LOANS

8. Property Types - Mortgage loans shall be made available to borrowers for single-family dwellings, two-family dwellings, three-family dwellings, four-family dwellings, single-family cooperative apartments, and single-family condominiums.
9. Terms and Conditions - Mortgage loans shall be made available under the following terms and conditions:
 - a) Borrowers shall occupy the homes as their principal residence.
 - b) Home loans shall be secured primarily by the property acquired.
 - c) Home loans shall be available only for the purchase or refinance of homes in the State of California.
 - d) In no event shall the loan amount exceed three hundred fifty thousand dollars (\$350,000).
 - e) Prepayment penalties may be assessed on the home loans in accordance with the rules and regulations established by the Board.
10. Loan-to-Value Ratios (LTV) - The terms and conditions shall provide a loan-to-value ratio as follows:
 - a) For purchase or refinance of single-family and two-family dwellings, the maximum LTV shall be 95 percent.
 - b) For purchase or refinance of three-family dwellings and four-family dwellings, the maximum LTV shall be 90 percent.
 - c) The portion of any loan exceeding 80 percent of value shall be insured by an admitted mortgage guaranty insurer conforming to Chapter 2A

(commencing with Section 12640.01) of Part 6 of Division 2 of the Insurance Code, in an amount so that the unguaranteed portion of the loan does not exceed 75 percent of the fair market value of the property.

11. Investment Limitations - The following limits apply with respect to the approval of mortgages within the HLP:

- a) For those loans which conform to FNMA Guidelines:
 - Investment Officer I - May approve up to \$5 million in loans per day.
 - Investment Officer II - May approve up to \$10 million in loans per day.
 - Investment Officer III - May approve up to \$20 million in loans per day.
 - Director of Fixed Income - May approve up to \$50 million in loans per day.
 - Chief Investment Officer - May approve up to \$100 million in loans per day.
- b) For those loans which are non-conforming to FNMA Guidelines:
 - Investment Officer I - May approve up to \$1 million in loans per day with a dual review by an Investment Officer II or higher.
 - Investment Officer II - May approve up to \$5 million in loans per day with a dual review.
 - Investment Officer III - May approve up to \$10 million in loans per day with a dual review.
 - Director of Fixed Income - May approve up to \$25 million in loans per day with a dual review.
 - Chief Investment Officer - May approve up to \$100 million in loans per day with a dual review.

PERSONAL LOANS

12. Eligibility - Personal Loans permitted under this policy shall be made available only to currently employed members who are required to make contributions to, and are not receiving any benefits from, the System.

13. Terms and Conditions - Personal Loans permitted under this policy shall be made available under the following terms and conditions:

- a) The member shall obtain one loan with a loan-to-value ratio not to exceed 95 percent, secured by the purchased home, and a Personal Loan with a loan-to-value ratio not to exceed 5 percent. The Personal Loan shall be secured by a portion of the accumulated retirement contributions in the member's individual account.

- b) The 5 percent Personal Loan shall only be used for the purchase of the member's principal residence and not for a loan to refinance the member's existing mortgage.
 - c) In no event shall the loan amount, including the Personal Loan secured by the accumulated retirement contributions in the member's individual account, exceed three hundred fifty thousand dollars (\$350,000).
 - d) In no event may the Personal Loan secured by the accumulated retirement contributions in the member's individual account exceed the lesser of: 50 percent of the current value amount of the accumulated contributions or fifty thousand dollars (\$50,000).
 - e) The members participating in the Personal Loan portion of the HLP shall pay appropriate administrative costs of implementing this policy. Those costs may be included in the loan amount.
14. Pledge of Security - The pledge of security for the Personal Loan permitted under this policy shall remain in effect until the loan is paid in full, within the following constraints:
- a) If the member is married at the time the home is purchased with a Personal Loan secured by the member's accumulated retirement contributions, then the member's spouse shall agree in writing to the pledge of security, as to his or her community interest in the amount pledged, regardless of whether title to the home is in joint tenancy.
 - b) The pledge of security under this policy shall take binding effect. In the event of default on the Personal Loan, the accumulated retirement contributions in the member's account shall be reduced as necessary to recover any outstanding loan balance, not to exceed the pledge amount.
15. Default Provisions - In the event of a default on the Personal Loan, the Board may deduct an amount from the member's accumulated retirement contributions on deposit and adjust the member's accrued benefit, up to the amount pledged as security, prior to making any disbursement of retirement benefits.

**California State Teachers' Retirement System
Home Loan Program Policy Manual**

GLOSSARY

ACCUMULATED EMPLOYEE CONTRIBUTIONS: The employee's contribution account that includes the member's retirement contributions and any accrued interest. This account does not include the employer's contribution.

BOARD: The California State Teachers' Retirement System Board of trustees.

CORRESPONDENT AGREEMENT: The contract between CalSTRS and a private financial institution that originates and services loans, which describes the respective duties of each party.

CORRESPONDENT LENDER: The private financial institution that originates and services home loans for CalSTRS' borrowers.

DEFAULT: A member is in default when the payment due on the Personal Loan has not been remitted for 120 days.

ELIGIBILITY: The secured Personal Loan permitted under this portion of the HLP will be made available only to currently employed members who are not receiving any type of payment from CalSTRS. This restriction includes, but is not limited to, members who are on disability, in retirement status, or members who are inactive.

FNMA GUIDELINES: The specifications required by the Federal National Mortgage Association (Fannie Mae) in order to be eligible for guarantee as to principal and interest payments. The Federal National Mortgage Association is a private corporation, federally chartered to provide financial products and services that increase the availability and affordability of housing for low-, moderate-, and middle-income Americans.

LOAN RATE: The cost of using money, expressed as a rate per period of time.

LOAN TO VALUE RATIO: The ratio of the loan amount to the appraised value of the property. Example: A property with a loan of \$80,000 and an appraised value of \$100,000 results in a loan to value of 80%.

NON-CONFORMING: A loan not eligible for guarantee as to principal and interest by FNMA or other federally chartered housing agency, based upon the borrower's qualifying ratios and/or loan amount.

PERSONAL LOANS: The 5 percent financing that CalSTRS will loan to its members in order to finance the down payment on the purchase of a single family dwelling in California.

PLEDGE AMOUNT: The total amount of the Personal Loan. This is the loan amount, plus all accrued interest, calculated at the time of loan origination.

PREPAYMENT PENALTY: A monetary penalty assessed against the borrower, designed to inhibit the borrower's ability to refinance.

PROPOSED
RESOLUTION OF THE
TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: Home Loan Program Policies

Resolution No. _____

WHEREAS, the Investment Committee of the California State Teachers' Retirement Board is responsible for recommending to the Board, investment policy and overall investment strategy; and

WHEREAS, the Investment Committee has received and reviewed the Home Loan Program Policies and has heard oral presentations from Staff; and

WHEREAS, the Staff has recommended the adoption of the Home Loan Program Policies; Therefore be it

RESOLVED, that the Investment Committee of the California State Teachers' Retirement Board adopts the Home Loan Program Policies.

Adopted by:
Investment Committee
on _____

James D. Mosman
Chief Executive Officer